City of Detroit
CITY COUNCIL

IRVIN CORLEY, JR.
FISCAL ANALYST
(313) 224-1076

FISCAL ANALYSIS DIVISION
Coleman A. Young Municipal Center
2 Woodward Avenue, Suite 218
Detroit, Michigan 48226
FAX: (313) 224-2783
E-Mail: cc-fiscal@ci.detroit.mi.us

ANNE MARIE LANGAN
ASSISTANT FISCAL ANALYST
(313) 224-1078

TO: John W. Prymack, Director
Greater Detroit Resource Recover Authority

FROM: Irvin Corley, Jr., Fiscal Analysis Director IC.

DATE: May 5, 2010

RE: 2010-11 Budget Analysis

Attached is our budget analysis regarding your agency's budget for the upcoming 2010-11 Fiscal Year.

Please be prepared to respond to the issues/questions raised in our analysis during your scheduled hearing on **Friday, May 7, 2010 at 2:00 p.m.** We would then appreciate a written response to the issues/questions at your earliest convenience subsequent to your budget hearing. Please forward a copy of your responses to the Councilmembers and the City Clerk's Office.

Please contact us if you have any questions regarding our budget analysis.

Thank you for your cooperation in this matter.

IC:ss

Attachment

cc: Councilmembers
Council Divisions
Auditor General's Office
Norman White, Chief Financial Officer
Pam Scales, Budget Department Director
Alia Moss, Budget Department Team Leader
Renee Short, Budget Manager II
John Prymack, Director - GDRRA
Monica Johnson, Head Accountant-GDRRA
Kamau Marable, Mayor's Office

I:\10-11 BUDGET\DAILIES-TEMP\JGP\GDRRA.doc

Greater Detroit Resource Recovery Authority

FY 2010-11 Budget Analysis by the Fiscal Analysis Division

Mayor's 2010-11 Recommended Budget: The recommended budget has moved the five positions for the Greater Detroit Resource Recovery Authority from Non-Departmental to the Department of Public Works, Solid Waste Fund activity. In addition the tipping fee budget is being reduced from $23.1 million to 16.0 million a $7.1 decrease, or a 30% reduction.

History: The City of Detroit/Resource Recovery Agreement specifically mandates that "the City shall budget, appropriate and requisition City funds for payment of the Tipping Fee . . . ". It further states that " the City hereby recognizes and affirms that its obligations to pay Tipping Fees . . . are full faith and credit obligation of the City . . . The City expressly and irrevocably pledges its full faith and credit for the prompt and timely payment of the Tipping Fees, and shall each year, commencing with the Fiscal Year 1985-86, appropriate from its General Fund as a first budget obligation sufficient monies to pay such Tipping Fees." (emphasis added).

As a result of the language included in this agreement, it becomes a primary budget obligation to provide for the DPW Tipping Fee. It can be argued that this obligation supersedes the City's obligation to provide police, fire, sanitation and other generally recognized City services. It appears that the only way to avoid appropriating the Tipping Fee from the General Fund is if the City is actually in a default position resulting from bankruptcy, and the fee can then be assigned directly against the Detroit property owner. This would be done by assessing directly against the residential users of the Authority's Resource Recovery facility based on a flat annual fee and against commercial users of the facility based upon individual contracts.

The GDRRA bonds were refinanced in March 1996. As a result of the refinancing, the City will save approximately $184 million over the remaining life of the GDRRA bonds.

The Tipping Fee amount is calculated by taking the sum of the operating fee, the authority's administrative expenses plus debt service, less the authority's revenues.

Issues and Questions

1. The last page of this report contains a spreadsheet that details the operating budget for the Greater Detroit Resource Recovery Authority and compares the current year with the recommended budget. The amount of detail as presented has changed to a great extent. It is understood that the final debt service payments were made during 2009, however please explain what has happened to the operating accounts, especially the loss of revenue accounts.

2. Explain the line at the bottom of the spreadsheet "Est. year end payable portion shortfall 2009-10. The description sounds like a deficit amount from the current year that is being financed in the new budget. Yet, the amount included in DPW for GDRRA is the $16.6 million. Does this mean there is an already recognized deficit of $5.9 million that is not being addressed in the budget? If not, please explain.

3. During budget development in past years, two items received a great deal of attention and discussion, explain to Council the current status or the final outcome of the estimated $26 million in bond reserves, and the $25 million in revenue from the DTE Escrow Fund. Who is in possession and/or control of the DTE Escrow Fund? Who is receiving interest earnings on this fund? Does DTE have the ability/legal right to make withdrawals from the fund? Why has the amount of the fund decreased over time?

4. Is the independent audit being conducted by Price Waterhouse Coopers for the fiscal year ending June 30, 2009 completed? Do the final or preliminary statements indicate a $44 million operating deficit, and/or a $26 million shortfall in cash? If not, what are the correct numbers as currently reflected in the statements? Explain how the large deficit and cash shortfall were allowed to happen. What is the plan to address the problem?

5. At the Non-Departmental Budget Hearing, it was stated that GDRRA has a $40 million deficit, and that the city is required to pay the deficit created by GDRRA. What is the period of time this $40 million deficit relates to? What operational changes have been instituted subsequently to ensure the GDRRA operation does not continue generating deficits of this magnitude? Whatever the amount of the GDRRA deficit, when was an appropriation approved by City Council that allows the general fund to cover the GDRRA deficit?

6. The 2009-10 Budget included a Pilot Recycling Program. Describe the progress on the implementation of the program. What if any special vehicles or equipment will be necessary for the Pilot Recycling Program? What are the actual expenses and revenues compared to the estimates? Will this program continue in 2010-11?

7. What is the status of any plans or negotiations for GDRRA's purchase of an ownership interest in the incinerator? Is there any new sale/leaseback type transaction under consideration? If so, how would it be structured and when would it be completed?

8. As of May 4, 2010 the total amount recorded in the financial system for tipping fees is $5.0 million. The current year budget for this fee is $23.0 million. Explain the difference. What is GDRRA using to meet its requirements if the city is not paying for service? What number of tons of solid waste has been delivered to GDRRA by DPW on a monthly basis in

the current year? What is the cost per ton that the GDRRA is charging DPW in the current year? What is the per ton cost included in the 2010-11 recommended budget. If this amount is greater than $25 per ton, what is the justification for DPW to continue to use GDRRA for disposal service, as the cost per ton is not competitive? How long will DPW continue to pay a premium for disposal of solid waste services by using GDRRA? If GDRRA is not billing on a per ton basis, explain the method used.

9. Is the City bound by any contracts made by GDRRA with any other parties? Or is the only contract between the City and GDRRA for the disposal of solid waste? What specifically does the contract between the City and GDRRA require? What are the rates in that agreement for the disposal of solid waste?

10. If there are GDRRA agreements in existence with third parties that include legal commitments with the City how was the City approval or acceptance of the commitment secured? If the commitment resulted by action of the GDRRA board, how can the board commit the city without legislative approval?

11. Are any other parties to the GDRRA transactions demanding that the City guarantee municipal solid waste deliveries to the resource recovery facility as a condition of the agreement? If so, what is the City's position on the enforcement of these provisions?

12. Provide a business case including specific figures, volume processed by source, revenue sources, agreement rates and documentation to support whether or not the facility can be operated at a profit going forward, with and without participation of the City of Detroit.

13. Provide a detailed explanation citing specific provisions of the 1991 sale/leaseback transaction documents, or other relevant documents including the new agreements entered into in 2009 or 2010, on the owner's ability to enforce a requirement that the City of Detroit provide municipal solid waste to the facility. What is the requirement that the cost to the city in total to dispose of solid waste at the facility must match the cost of alternatives including using a land fill? Provide the details that show city costs are not exceeding land filling costs?

14. In addition to the solid waste from the city, who else is providing solid waste to the facility? Provide a three year comparison of the amount of waste from each source, and the cost to the entity for disposal services. Include the estimated amounts and cost for 2010-11. Include a list of GDRRA's current customers, with tipping or other fees that GDRRA or the operator is charging for solid waste disposal services.

15. The facility was constructed quite a while ago and we believe it was built for a much larger stream of solid waste disposal than can be currently provided by the city. At what level of capacity is the facility being operated? What benefits or drawbacks does operating the facility at this level have?

16. Provide Council with GDRRA's business plan for the next 1, 5, and 10 year period.

17. This may be a better question for the Administration to answer, but Council would be interested in the rationale to continuing GDRRA, rather than incorporating the whole solid waste collection and disposal operation within the City as it was prior to GDRRA. GDRRA was created as a required structure to support the financing arrangement for the construction and operation of the resource recovery facility. Now that the financing arrangements are coming to an end why continue the authority? This arrangement has the costs of the activity of solid waste collection and disposal spread between the general fund, solid waste fund, the Department of Public Works and GDRRA. This results in the total cost being very difficult to determine without a great deal of analysis to identify all appropriate costs and eliminate all double accounting. While this was a necessary due to the financing agreements those reasons no longer seem to support the need for the authority. This arrangement provides additional appointed positions for the administration. It also places a seemingly unnecessary intermediary between the City and the operation of solid waste disposal. Also, it does not provide a transparent structure allowing the total cost of solid waste collection and disposal activity of the City to be seen. It allows for major policy and operating decisions to be made outside of the City governance structure.

18. What is the overall condition of the plant anticipated to be like when the debt is retired in a year? What was the life expectancy of the plant and equipment originally? Is the facility holding up in operation as planned? Is the facility in need of major or minor repairs? What is the estimated investment needed for repairs or improvements to extend the useful life? If plant is in need of any updates or repairs, who will be responsible for the payment of the costs? How will the tipping fee change if $30 million in repairs are needed to continue operation of the plant?

19. Has there been any study as to what sort of additional infrastructure would be needed for the plant to handle DWSD's waste?

IC:JGP

Attachment

Greater Detroit Resource Recovery Authority
Operating Budget Request

	2009-10 Budget	2010-11 Recommended	Inc/(Dec)	% Inc/(Dec)
Expenses:				
Net Debt Service	$ -	$ -	$ -	N//A
Net APC Debt Service	-	-	-	N//A
Total Debt Service	-	-	-	N//A
Less: 1996 A & B Bond Reserve	-	-	-	N//A
Debt Service after Use of Reserve	-	-	-	N//A
Labor and Plant Maintenance	21,188,335	$ -	(21,188,335)	-100.00%
Contractual Services/Other Costs	3,864,951	-	(3,864,951)	-100.00%
Sales Taxes and Add'l Oper. Revenue	3,970,781	-	(3,970,781)	-100.00%
Lime Addition	1,417,584	-	(1,417,584)	-100.00%
Purchased Electricity	471,770	-	(471,770)	-100.00%
Other Fuels	1,361,605	-	(1,361,605)	-100.00%
Water	845,848	-	(845,848)	-100.00%
Sewerage	2,015,109	-	(2,015,109)	-100.00%
Electrical Intertie Maintenance	156,357	-	(156,357)	-100.00%
Steamline Maintenance	1,022,975	-	(1,022,975)	-100.00%
Insurance	1,565,461	-	(1,565,461)	-100.00%
Supplemental Taxes	1,439,089	-	(1,439,089)	-100.00%
Hauling and Disposal Costs	18,579,267	14,219,075	(4,360,192)	-23.47%
Authority Administrative	2,326,156	2,396,284	70,128	3.01%
Escrow Fee (Authority)	1,113,204	-	(1,113,204)	-100.00%
Deficit Reduction Contribution	-	-	-	N//A
TOTAL EXPENSES	**$ 61,338,492**	**$ 16,615,359**	**(44,723,133)**	**-72.91%**
Revenues:				
Steam Sales	24,050,000	-	(24,050,000)	-100.00%
Electricity Sales	12,346,382	-	(12,346,382)	-100.00%
Operators Energy Revenue	(5,459,459)	-	5,459,459	-100.00%
Investment Earnings	-	-	-	N//A
Private Hauler Fees	5,192,388	-	(5,192,388)	-100.00%
Recovered Material	1,920,612	-	(1,920,612)	-100.00%
DTE Escrow Fund	-	-	-	N//A
TOTAL REVENUES	**$ 38,049,923**	**$ -**	**(38,049,923)**	**-100.00%**
TIPPING FEE	**$ 23,288,569**	**$ 16,615,359**	**(6,673,210)**	**-28.65%**
Est. year end payable portion shortfall 2009-2010	$ 6,043,881	$ 5,956,697		